

Entrance Counseling Guide

For Direct Loan Borrowers



U. S. D E P A R T M E N T O F E D U C A T I O N

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*This guide provides a general overview of information that you will need to successfully repay the Direct Loans that you are receiving to help pay for your college costs. For more detailed information about a specific topic, see the Master Promissory Note for your loan or your copy of the **Borrower's Rights and Responsibilities Statement**. Much of the information in this booklet is a part of entrance counseling, which first-time student borrowers must complete before getting a Direct Loan. Throughout this guide, the words "we," "us," "our" and "the Department" refer to the U.S. Department of Education. Also, all references to "loan" in the singular apply to more than one loan as well.*



Types of Direct Loans

These loans are made through the William D. Ford Federal Direct Loan (Direct Loan) Program, which is administered by the U.S. Department of Education:

Direct Subsidized Loans

Federal Direct Stafford/Ford Loans—*Subsidized loans for students. Interest is not charged while you are in school at least half-time, during your grace period or during deferment periods. To receive a Direct Subsidized Loan, you must have financial need. Your school will determine if you are eligible for a Direct Subsidized Loan.*

Direct Unsubsidized Loans

Federal Direct Unsubsidized Stafford/Ford Loans—*Unsubsidized loans for students. Interest is charged during all periods, including while you are in school and during grace and deferment periods.*

Direct PLUS Loans

Federal Direct PLUS Loans—*Unsubsidized loans for parents to help pay for the cost of a dependent student's education. Interest is charged during all periods.*



Direct Consolidation Loans

Federal Direct Consolidation Loans—*Loans for students or parents that combine different federal student loans into one loan. If you consolidate subsidized loans, interest is not charged on the subsidized portion of the consolidation loan while you are in school at least half-time or during grace and deferment periods. If you consolidate unsubsidized loans, interest is charged on the unsubsidized portion of the consolidation loan during all periods.*

THINKING ABOUT BORROWING?

How Much Can I Borrow?

The table below shows the MAXIMUM amounts you can borrow each academic year and in total, based on your dependency status and grade level. Whether you are considered dependent or independent is based on your age, marital status and other factors. Your school can tell you your dependency status. All graduate and professional students are considered independent.



The actual loan amounts and types of loans (subsidized, unsubsidized or a combination of both) that you are eligible to borrow each year are determined by your school, based on factors such as your cost of attendance, Expected Family Contribution, other financial aid and the length of your program. The actual amounts you are eligible to borrow may be less than the maximum amounts shown below. If you are enrolled in certain health professions programs, you may qualify for higher annual and aggregate limits on Direct Unsubsidized Loans.

Annual Loan Limits for Direct Subsidized Loans and Direct Unsubsidized Loans:

	Dependent ¹	Independent ²
First Year (freshman)	\$2,625	\$6,625 (maximum \$2,625 subsidized)
Second Year (sophomore)	\$3,500	\$7,500 (maximum \$3,500 subsidized)
Third Year (junior) and beyond	\$5,500	\$10,500 (maximum \$5,500 subsidized)
Graduate and Professional		\$18,500 (maximum \$8,500 subsidized)

Aggregate Loan Limits: Maximum Total Outstanding Loan Debt

	Dependent ¹	Independent ²
Undergraduate	\$23,000	\$46,000 (maximum \$23,000 subsidized)
Graduate and Professional		\$138,500 (maximum \$65,500 subsidized) ³

¹The dependent loan limits are for subsidized and unsubsidized loans combined. For example, the maximum annual amount that a dependent freshman may borrow is \$2,625, which may consist of subsidized loans, unsubsidized loans or a combination of both types of loans.

²For independent students, the first amount is the loan limit for subsidized and unsubsidized loans combined. The second amount is the maximum portion of the combined limit that may be from subsidized loans. For example, an independent freshman may receive a maximum of \$6,625 each year but no more than \$2,625 of that amount may be from subsidized loans.

³The graduate and professional maximum includes undergraduate loans.

How Much Should I Borrow?

It's a good idea to borrow only as much as you need. That way, you'll have lower monthly payments when you're repaying your loan. This will leave you more money for things like housing, child care and the expenses of starting a new career when you leave school.

How can I reduce the amount I need to borrow?

When you file your *Free Application for Federal Student Aid* (FAFSA), you'll automatically be considered for aid from all of the programs offered by the U.S. Department of Education, including grants and work-study. The information on your FAFSA is often used by your school to award grants and scholarships from other organizations, which may reduce the amount you have to borrow. You may be able to find additional sources of aid on your own—for instance, try a free scholarship search on the Web. The Department has a free search on its *Student Aid on the Web* site at: **www.studentaid.ed.gov/**.

Another way to help pay for college and minimize debt is to work part-time. Working while going to school is not for everyone—but studies show that students who work while going to school do better in their courses than students who don't work. Working can also provide you with valuable experience and skills needed for your career.



How can budgeting help me?

Developing and sticking to a budget while you're in school can help minimize the amount you need to borrow. Make a list of your expected monthly expenses and subtract that from your available sources of income, such as your student aid and any outside employment. If your income is less than your expenses, you'll need to reduce your expenses, find other sources of income or both.

You can also use a budget to see how much you can afford to repay, based on your estimated income and expenses after you leave school. This estimated budget can help you decide how much you can afford to borrow to go to school.

Find help on the Web: Use the Interactive Budget Worksheet and Calculator at: **www.ed.gov/offices/OSFAP/DirectLoan/calc.html/**. Also see pp. 11-13 in this booklet.

How will my student loan fit into my budget after I graduate?

To set up a monthly budget, start with your expected annual income. You can get rough estimates of salaries in different careers by checking the *Occupational Outlook Handbook* at: **www.bls.gov/oco** and you may want to check jobs advertised in the area where you plan to live.



Credit cards are one tool for borrowing money, but they often carry very high interest rates. Many credit cards give you a low interest rate for the first few months and then raise the rate after this initial period. If you decide you need a credit card, it's best to stick with one card with a low credit limit. Pay off your total balance each month. If that is not possible, always pay more than the minimum. If you make a payment late (even a day late!), you may have to pay a finance charge, and your interest rate may go up.

As you make your budget, first, subtract 30 percent of your salary for federal, state, and local taxes. Then divide by 12 to find your monthly take-home pay. Then estimate your expenses using the following table. If you're not sure what to estimate for a particular category, multiply your monthly take-home pay by the suggested percentages in the second column of the worksheet below.

To show you how this works, let's take the example of Myra Mensa, who is planning to get a degree in nursing and work as a registered nurse (RN). Myra used the Web to look up nursing jobs in the area where she plans to work after college and found that the starting salary for an RN is about \$23,000. After taxes, she expects to have about \$16,000 of available income a year. Divided by 12, this gives her a monthly budget of \$1,333.

Based on this budget, Myra can afford student loan payments of \$81 a month. Looking at the repayment chart on page 12 of this booklet, this would mean that Myra can afford to borrow

\$6,500 under the Standard repayment plan, \$7,500 under the Extended plan, and \$12,000 under the Graduated plan.

Keep in mind that these are rough estimates, as income and expense figures are likely to change due to inflation or other factors.

Monthly Expenses		Myra's Budget	Your Budget
Rent/Mortgage	33%	\$440	
Groceries	15%	\$200	
Clothing	5%	\$65	
Car payments & insurance	12%	\$160	
Utility bills (gas, electric, water, telephone, cable)	7%	\$93	
Medical (insurance, doctor's visits, etc.)	5%	\$67	
Entertainment & recreation (dining out, movies, music, vacation trips)	7%	\$93	
Other debts (including credit card debt)	5%	\$67	
Miscellaneous/Savings	5%	\$67	
Student loan payments	6%	\$81	
TOTAL	100%	\$1,333	

Can I get help repaying my loan?

There are some careers that can help you repay your loan. For instance, you might be eligible to have as much as \$5,000 of your loan cancelled after five years of teaching in schools in low-income areas (for more details, see *Student Aid on the Web* at: www.studentaid.ed.gov). As a part of their recruitment programs, the Armed Forces may repay your education loan if you enlist in the military. For more information, contact your local military service recruitment office.

* Remember, you must repay the full amount of your loan even if you don't complete your education program, can't find work related to your area of study or are dissatisfied with the education or services you received from your school.

How Much Interest Do I Have to Pay?

The interest rate on Direct Subsidized and Unsubsidized Loans is a variable rate that is adjusted each year on July 1. As a result, your interest rate may change annually, but it will never exceed 8.25 percent. We will notify you annually of the actual interest rate for each loan that you receive.

We do not charge interest on your *subsidized* loan while you are enrolled at least half-time, during your grace period and during deferment periods. We charge interest on your Direct Subsidized Loan during all other periods, starting on the day after your grace period ends (including forbearance periods). We charge interest on your *unsubsidized* loan during all periods, starting on the day it is disbursed.

Should I Pay Interest on My Loan While I'm in School?

If you choose not to pay the interest on your Direct Unsubsidized Loan while you're in school, we will add it to the unpaid principal amount of your loan. This is called "capitalization." Capitalization increases the unpaid principal balance of your loan, and we will then charge interest on the increased principal amount. It will save you some money in the long run if you pay the interest as it accrues on your loan while you're in school or during the grace period. This is also true if you pay any interest that accrues during periods when you defer loan payments after leaving school. Check your quarterly statements and use the online calculators at: www.dl.ed.gov to find out how much you'll pay over the life of the loan if the in-school interest is added to your loan balance.

* By law, a loan fee will be subtracted from each loan you receive. This fee will be subtracted proportionally from each disbursement of your loan. The loan fee will be shown on a disclosure statement that we send to you.

The Master Promissory Note

To get a Direct Loan, you must sign a Master Promissory Note (MPN). The MPN is a legally binding agreement that you will repay your loan to the Department. It contains the terms and conditions of the loan and explains how and when it should be repaid. You should keep the MPN and any other loan documents in a safe place for future reference.

* If you want to sign a separate MPN for each loan that you receive rather than using one MPN to cover all of your Direct Loans, you must notify your school or the Direct Loan Servicing Center in writing. See page 11 for the address.

The MPN can be used to make all of your Direct Loans during your college attendance (for up to 10 years), if your college chooses to use it to make multiple

* Review all documents carefully before signing and remember to keep copies of all financial aid information.

loans. For instance, if you're attending a community college, you could sign one MPN and receive a **subsidized** and an **unsubsidized** loan for your first year, as well as your second year of study. You'll receive a disclosure statement that gives

you specific information about any loan that the school plans to disburse under your MPN, including the loan amount and loan fees. The disclosure statement also tells you how to cancel your loan if you don't want it.

How Your Loan Money Is Paid

Generally, your school pays your loan money in at least two disbursements, for example, at the beginning of each semester or quarter or at the beginning and midpoint of your academic year.

Your school usually credits your loan payment to the school charges on your account (tuition and fees, room and board, and other authorized charges). If the loan money exceeds your school charges, the school will pay you the *credit balance* by check or other means. We notify you in writing each time your school disburses part of your loan money.

Unless you authorize your school to hold the credit balance for you, your school must pay it to you within 14 days after the start of classes for that academic term or payment period. If the loan money is credited to your school charges after classes start, the school has 14 days to pay the credit balance from the date it made the credit.



* Before your loan money is disbursed, you may cancel all or part of your loan at any time by notifying your school. To cancel all or part of the loan after it's been credited to your account, you should let your school know before the first day of the payment period, or within 14 days of receiving the notice from the school that the loan money was credited, whichever is later. As an alternative, you may return all or part of the loan to the Direct Loan Servicing Center within 120 days of the date your school credited your account or paid you the credit balance. For either type of cancellation, your loan will be adjusted to eliminate any interest or loan fee amount that applies to the cancelled portion of your loan.

* **Cautions:** You may use the loan money you receive **only** to pay for your education expenses at the school that is giving you the loan. Education expenses include school charges such as tuition, room and board, fees and indirect expenses such as books, supplies, equipment, dependent child care expenses, transportation and rental or purchase of a personal computer.

The entire unpaid amount of your loan may become due and payable (on your MPN this is called "acceleration") if it turns out that you are not eligible for the loan. For instance, you'll have to pay back the loan immediately if:

- ❖ You don't enroll at least half-time at the school that gave you the loan.
- ❖ You gave false information that made you eligible for the loan.



PAYING BACK YOUR LOAN

Because we report information about your loan to national credit bureaus, making timely payments on your loan will help you keep a good credit rating. If you think you might have a problem making the scheduled payments on your loan, contact the Direct Loan Servicing Center immediately. The Direct Loan Servicing Center can help you avoid the costs and penalties of delinquency and default.



Repayment Options

When you leave school, you may need some time to find the right job and perhaps move to a new place. So that you won't have to start making payments on your loan right after you leave school, each of your Direct Loans has a six-month "grace period" that starts the day after you stop attending school or you drop below half-time enrollment. You don't have to make payments during this grace period—we'll let you know when the grace period is coming to an end and when you need to make your first payment. Interest does continue to accrue on any *unsubsidized* loan.

You may choose one of the following repayment plans to repay your loan:


STANDARD REPAYMENT PLAN—Under this plan, you will make fixed monthly payments to repay your loan **in full within 10 years** (not including periods of deferment or forbearance) from the date the loan entered repayment.

EXTENDED REPAYMENT PLAN—Under this plan, you will make fixed monthly payments and repay your loan **in full within 12 to 30 years** (not including periods of deferment or forbearance), depending on the total amount of your Direct Loans.

GRADUATED REPAYMENT PLAN—Under this plan, your payments will be lower at first and will increase, usually every two years. You will repay your loan **in full within 12 to 30 years** (not including periods of deferment or forbearance), depending on the total amount of your Direct Loans.

INCOME CONTINGENT REPAYMENT PLAN—Under this plan, your monthly payment amount will be based on your annual income (and that of your spouse if you are married), your family size and the total amount of your Direct Loans. As your income changes, your payments may change. If you do not repay your loan after 25 years under this plan, the unpaid portion will be forgiven. You may have to pay income tax on any amount forgiven.

See your copy of the *Borrower's Rights and Responsibilities Statement* for more information about the different plans. If you don't choose a repayment plan, we'll use the Standard Repayment Plan, but you may change repayment plans at any time after you have begun repaying your loan. Another option is to combine your loans into a single Direct Consolidation Loan, which simplifies repayment and allows you to extend the repayment period. (Note that while your monthly payments may be lower, you may pay more interest over the life of the Direct Consolidation Loan.)

 If you are a reservist called to active duty for more than 30 days, the time you serve generally doesn't count against your grace period. See your copy of the *Borrower's Rights and Responsibilities Statement* for more details.

You can use the chart at the end of this guide to estimate the monthly and total amounts you would repay under these repayment plans. You can also get more precise estimates by using the online calculators at: www.dl.ed.gov/.

Keep Your Loan Account Up to Date!

One of the most common reasons a loan goes into default is because we don't have current information on a borrower. You **must** notify the Direct Loan Servicing Center and/or your school's financial aid office about certain changes. This is your responsibility.

Until you graduate or leave school, you must notify your school's financial aid office and the Direct Loan Servicing Center if you:

- ❖ Change your local address, permanent address or telephone number;
- ❖ Change your name (for example, maiden name to married name);
- ❖ Do not enroll at least half-time for the loan period certified by the school;
- ❖ Do not enroll at the school that certified your loan;
- ❖ Stop attending school or drop below half-time enrollment;
- ❖ Transfer from one school to another school; or
- ❖ Graduate.

Keep in Contact!

You must also notify the Direct Loan Servicing Center if any of these types of changes happen *after you leave school*. In addition, you must notify the Direct Loan Servicing Center if you have any other change that would affect your loan, for example, if your eligibility for a deferment has ended.

Staying Out of Default

Make sure you take advantage of deferments and forbearances when you need them. If you go back to school later, remember that you can defer making payments on the loan while you're enrolled at least half-time at a school that's eligible to participate in the Department's Federal Student Aid programs. You may also qualify for a deferment if you are unemployed or meet our rules for economic hardship. Forbearances also allow you to defer loan payments in certain situations, such as illness.

You are delinquent if your monthly payment is not received by the due date. If you fail to make a payment, we'll send you a reminder that your payment is late. If your account remains delinquent, we'll send you warning notices reminding you of your obligation to repay your loan and the consequences of default. Late fees may be added if your payments are late, and your delinquency will be reported to one or more national credit bureaus.



Default occurs when you become 270 days delinquent in making payments on your loan. If you default:

- ❖ The entire unpaid amount of your loan becomes due and payable.
- ❖ We will report your default to national credit bureaus.
- ❖ We may sue you, take all or part of your federal tax refund or other federal payments, and/or garnish your wages so that your employer is required to send us part of your salary to pay off your loan.
- ❖ You'll have to pay collection fees and costs, plus court costs and attorney fees.
- ❖ You'll lose eligibility for other federal student aid and most other federal benefit programs.
- ❖ You'll no longer be eligible for loan deferments (such as deferments while you're in school, unemployed or experiencing economic hardship).

NOTEPAD

Loan Repayment Notes

How much you expect to borrow over the full length of your program: _____

The estimated monthly repayment amount for that amount of your loan (see chart): _____

Your expected monthly take-home salary in your new career: _____

Resources

College costs and other information: nces.ed.gov/ipeds/cool/

Occupational Outlook Handbook—average current salaries in different career fields: www.bls.gov/oco

Contacts for Your Direct Loans

If you have questions about your eligibility, the amount you can borrow or disbursements, contact the school you are attending.

Once your loan has been disbursed, you may contact the Direct Loan Servicing Center for help, especially if you're having trouble repaying or you need to report a change of address or a name change: 800-848-0979 or (TTY) 800-848-0983.

Direct Loans on the Web: www.dl.ed.gov

You can use this Web site to look up your account information, request a deferment, make online payments or set up automatic payments, change your billing options, etc. You will need to use your Personal Identification Number (PIN) to see your account information. Most students receive their PINs in a separate mailing after they first apply for aid. If you can't find your PIN, you can request a new one at **Direct Loans on the Web**.

Direct Loans are also reported to the National Student Loan Data System (NSLDS), which maintains your overall financial aid history for federal student aid. You may request your financial aid history by writing to:

**U.S. Department of Education
Direct Loan Servicing Center
P.O. Box 4609
Utica, NY 13504-4609**

Entrance Counseling Guide for Direct Loan Borrowers: Repaying Your Loans¹

Initial Debt When You Enter Repayment	Standard		Extended		Graduated		Income Contingent ^{3, 4} Income = \$15,000	
							Single	
	Per Month	Total	Per Month	Total	Per Month ²	Total	Per Month	Total
1,000	50	1,080	50	1,080	25	1,175	7	2,222
2,625	50	3,268	50	3,268	25	4,276	17	5,834
3,500	50	4,790	50	4,790	25	6,036	23	7,778
5,500	67	8,095	60	8,682	39	9,513	37	12,223
7,500	92	11,039	82	11,840	53	12,970	50	16,668
10,500	129	15,455	102	18,337	72	20,135	70	23,335
15,000	184	22,078	146	26,196	103	28,762	100	33,336
18,500	227	27,230	179	32,308	127	35,474	102	40,634
23,000	282	33,854	196	47,040	158	51,086	102	48,808
25,000	307	36,797	213	51,130	172	55,530	102	52,040
30,000	368	44,157	256	61,356	206	66,636	102	59,171
40,000	491	58,876	315	94,632	275	101,526	102	69,755
46,000	564	67,707	363	108,827	316	116,760	102	73,999
50,000	613	73,595	394	118,290	344	126,911	102	76,063
60,000	736	88,314	451	162,318	413	171,946	102	78,531
80,000	981	117,752	601	216,424	550	229,260	102	78,582
100,000	1,227	147,190	751	270,530	688	286,572	102	78,582
120,000	1,472	176,628	902	324,636	825	343,888	102	78,582
138,500	1,699	203,858	1,041	374,684	952	396,909	102	78,582

1 The estimated payments were calculated using the maximum interest rate for students, 8.25 percent.

2 This is your beginning payment, which may increase.

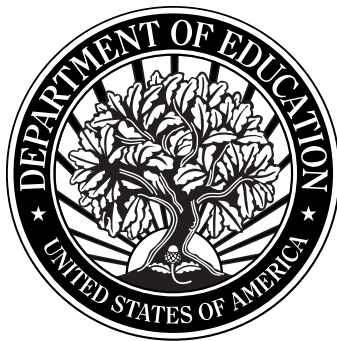
3 Assumes 5 percent annual income growth (Census Bureau).

4 The estimated payments were calculated using the formula requirements in effect during 2002.

5 HOH is Head of Household; assumes a family size of two.

Income Contingent ^{3,4} Income = \$15,000		Income Contingent ^{3,4} Income = \$25,000				Income Contingent ^{3,4} Income = \$45,000			
Married/HOH ⁵		Single		Married/HOH ⁵		Single		Married/HOH ⁵	
Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
6	2,133	9	1,892	8	2,008	11	1,570	11	1,573
17	5,599	23	4,965	21	5,271	29	4,120	29	4,128
22	7,466	30	6,620	28	7,027	38	5,494	38	5,505
35	11,732	48	10,403	45	11,043	60	8,633	60	8,650
48	15,998	65	14,186	61	15,057	82	11,773	82	11,796
51	22,034	91	19,861	85	21,082	115	16,482	115	16,514
51	29,877	130	28,373	122	30,117	164	23,545	164	23,591
51	35,095	160	34,993	150	37,145	203	29,039	203	29,096
51	40,772	199	43,505	187	46,180	252	36,103	252	36,173
51	42,971	216	47,288	203	50,196	274	39,242	274	39,319
51	47,594	259	56,746	218	61,851	329	47,091	329	47,183
51	53,688	269	83,965	218	101,057	438	62,788	438	62,910
51	55,508	269	108,806	218	118,140	504	72,206	504	72,347
51	56,057	269	129,985	218	124,478	548	78,485	548	78,638
51	56,123	269	149,233	218	137,097	602	95,554	551	98,397
51	56,123	269	168,620	218	150,299	602	145,609	551	155,368
51	56,123	269	174,034	218	151,575	602	220,774	551	242,226
51	56,123	269	174,034	218	151,575	602	330,420	551	323,472
51	56,123	269	174,034	218	151,575	602	357,714	551	337,247

For more customized estimates, use the Direct Loan Servicing Center's online repayment calculator at: www.dl.ed.gov.



F E D E R A L
STUDENT AID

We Help Put America Through School

Rights and Responsibilities Summary Checklist—Entrance Counseling

I understand that I have a right to the following: (Check off each box as you read.)

- ☐ Written information on my loan obligations and information on my rights and responsibilities as a borrower
- ☐ A grace period and an explanation of what this means
- ☐ A disclosure statement, received before I begin to repay my loan, that includes information about interest rates, fees, the balance I owe and the number of payments
- ☐ Deferment of repayment or forbearance for certain defined periods, if I qualify and if I request deferment or forbearance
- ☐ Prepayment of my loan in whole or in part anytime without an early-repayment penalty
- ☐ A copy of my MPN either before or at the time my loan is disbursed
- ☐ Documentation that my loan is paid in full

I understand I am responsible for:

- ☐ Completing exit counseling before I leave school or drop below half-time enrollment
- ☐ Repaying my loan even if I do not complete my academic program, I am dissatisfied with the education I received or I am unable to find employment after I graduate
- ☐ Notifying my school and the Direct Loan Servicing Center if I:
 - Move/change my address,
 - Change my name,
 - Withdraw from school or drop below half-time enrollment,
 - Transfer to another school,
 - Fail to enroll or re-enroll in school for the period for which the loan was intended,
 - Change my expected graduation date or
 - Graduate
- ☐ Making monthly payments on my loan after my grace period ends, unless I have a deferment or a forbearance (more detailed information about deferment, forbearance and repayment options will be provided during exit counseling)
- ☐ Notifying the Direct Loan Servicing Center of anything that might alter my eligibility for an existing deferment or forbearance

I have received entrance counseling materials for Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. I have read and I understand my rights and responsibilities as a borrower. I understand that I have a loan from the federal government that must be repaid.

Student's Name (Please Print)

Student's Social Security Number

Student's Signature

Date

STAMP
